28 May 2010

Update

BRE Bank Securities

Machinery

Poland

Famur

FMFR.WA; FMF.PW

Hold

(Upgraded)

Revenues Remain Low

Current price	**PLN 2.01**
Target price	**PLN 2.03**
Market cap	PLN 1.0bn
Free float	PLN 0.1bn
Avg daily trading volume (3M)	PLN 0.38m

Shareholder Structure

TDJ Investments Sp. z.o.o.	71.28%
ING OFE	6.19%
Tomasz Domogała	5.68%
Aviva OFE	5.09%
Others	11.76%

Sector Outlook

Demand is increasing in the sector, on the part of Polish as well as foreign mines. In Poland, the key factor is the replacement of old, worn out machinery. In case of foreign mines, we see investment aimed at capacity expansion and improved safety.

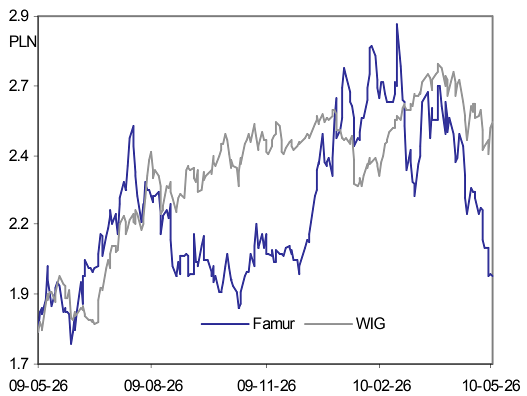
Company Profile

Famur supplies complete mining systems, including automated longwall systems, powered roof supports and hydraulic supports and actuators. In addition, the Company manufactures transportation and loading equipment for bulk materials and transportation equipment for people. Finally, it owns two foundries whose products are used by the shipbuilding and automotive industries.

Important Dates

31.08 - consolidated Q2 2010 report
15.11 - consolidated Q3 2010 report

Famur vs. WIG



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As expected, Famur posted weak earnings for Q1 2010, with revenue falling by 42.6% y/y and EBIT by 82.7% y/y. At PLN 21.0m, net profit adjusted for FY 2009 dividends from non-consolidated subsidiaries declined by 19.3% y/y. The current growth in the price of steam and coking coal in the global market and the decline in Russian coal imports is having a positive impact on the liquidity of Polish coal mines. We expect that as a result they will be more inclined to increase their CAPEX budgets. One other factor is the government's PLN 400m (in 2010) aid program, which has been approved by the European Commission. We expect that the improving financial situation of Polish coal mines will have a positive impact on second-quarter earnings in Mining Machinery and Equipment. In the other segments, we expect the return to higher revenues to be slow. In our opinion, the Company will not be able to beat the high EBIT and bottom line of Q2 2009 (a statistical base effect). We do not expect to see y/y improvement in EBIT at least until Q3 2010. We recommend holding the stock and we reduce our target price from PLN 2.14 to PLN 2.03 per share.

Future Outlook

We expect that while the improving financial situation of Polish coal mines will have a positive impact on revenues in Mining Machinery and Equipment, sales in the other segments will remain weak. Famur's first-quarter earnings indicate that demand has remained weak in the Metal Casting segment, where revenues fell by 44.3% y/y due to lower orders on the part of shipbuilders and the automotive industry. We reiterate our view that the segment's revenues will continue to recover very gradually (by 2.7% q/q on average). The big drop in sales in Lifting and Loading Equipment (-56.0% y/y) means that Famur will need at least a few quarters to rebuild its order backlog.

Solid Results for Zamet – Budowa Maszyn in Q4 2009

On occasion of the publication of its earnings for Q1 2010, Famur made an announcement on the earnings of Zamet, which it took over in May. Despite having a sales and target market profile that resembles Pioma Industry, Zamet maintains steady revenue (PLN 25m in Q4 2009, 25% of the FY 2009 total), while Pioma Industry is seeing a clear reduction in orders, with revenues going down by 60.4% in Q4'09. If Zamet can keep its performance up, it will have a positive impact on the Famur group in the future.

(PLN m)	2008	2009	2010F*	2011F*	2012F
Revenue	1 089.1	695.1	625.6	605.4	650.5
EBITDA	199.0	133.6	99.7	157.1	166.0
EBITDA margin	*18.3%*	*19.2%*	*15.9%*	*26.0%*	*25.5%*
EBIT	164.2	100.7	66.5	120.7	128.5
Net income	59.1	58.0	57.2	97.2	105.0
P/E	16.3	16.6	16.8	9.9	9.2
P/CE	10.3	10.6	10.6	7.2	6.8
P/BV	1.5	1.4	1.3	1.1	1.1
EV/EBITDA	5.3	7.9	9.5	5.4	5.1
DYield	0.0%	0.0%	0.0%	0.0%	6.7%

**Including the subsidy for the expansion of Famur-2 (PLN 16.4m in 2010 and PLN 21.3m in 2011)*

2010 First-Quarter Results

Famur reported a dramatic, 42.6% year-on-year drop in Q1 2010 revenues, led by a 66.5% plunge reported by the segment of mining machinery, and a 43.6% slump in other mining equipment. The downturn was caused by fierce competition for orders experienced in the third and fourth quarters of 2009, combined with CAPEX budget cuts by Polish mines due to uncertainty over coal sales to power plants. Moreover, the company's policy of competing for only the most lucrative contracts from prompt-paying customers, also played a part in the revenue shrinkage. Famur's lifting and loading equipment manufacturing operations also saw a huge, 56.0% decrease in first-quarter sales, resulting from the zloty's appreciation versus the euro (80% of the segment's sales are in euros), and a shortage of new orders. Moreover, sales of steel and iron castings fell 44.3% because of dwindling demand, including from one of the company's major customers, the automotive industry. On a more positive note, "other" operations reported a year-on-year increase in sales, supported by sales of the coal that Famur received from KHW as settlement for the latter's bonds. The discount on the bonds is recognized under financial income, and the coal sales are booked at zero margin through revenues and expenses.

Q1 2020 results

(PLN m)	2008	2009	change	1Q2009	1Q2010	change
Revenues	1 089.1	695.1	-36.2%	283.5	162.8	-42.6%
Mining machinery	506.6	339.4	-33.0%	163.4	54.8	-66.5%
Other mining equipment	118.1	72.9	-38.2%	24.4	13.8	-43.6%
Lifting and loading equipment	77.4	56.9	-26.4%	17.8	7.8	-56.0%
Castings	276.3	144.5	-47.7%	59.8	33.3	-44.3%
Other	110.8	81.3	-26.7%	18.2	53.2	192.6%
EBIT	164.2	100.7	-38.6%	65.0	11.3	-82.7%
EBIT margin	*15.1%*	*14.5%*	-	*22.9%*	*6.9%*	-
EBITDA	199.0	133.5	-32.9%	73.4	19.0	-74.1%
EBITDA margin	*18.3%*	*19.2%*	-	*25.9%*	*11.7%*	-
Net income	59.1	58.0	-1.7%	15.9	21.0	32.4%

Source: BRE Bank Securities

A first-quarter EBIT of PLN 11.3m was 82.7% lower than in the same period a year earlier, and it had been weighed down by weaker sales and a deteriorated profitability of the segments of lifting and loading equipment (-30.5pts) and metal casts (-20.3ppts), as well as the zloty's appreciation against the euro.

A 32.4% year-on-year increase in net earnings was owed to dividends received from subsidiaries, which boosted the bottom line by PLN 8.3m. The adjusted net figure is 19.3% lower than a year earlier.

Alongside its first-quarter earnings, Famur revealed the 2009 financial results of its latest acquisition, Zamet-Budowa Maszyn. In Q4 2009, Zamet generated a revenue of PLN 25.0m (representing 25% of the full-year result) and a net profit of PLN 5.6m (33.8%). Zamet's business and production profile are similar to Famur's other subsidiary Pioma Industry (both manufacture cranes and handling equipment), but its Q409 sales remained steady while Pioma reported a dramatic sales shrinkage in Q409 as well as in Q1 2010. If Zamet reports equally high sales in Q1 2010, we will be able to conclude that the acquisition was a value-enhancing addition from the standpoint of Famur's shareholders.

In conclusion, Famur's financial performance in the first quarter was dismal, but in line with expectations.

Future Outlook

The second quarter of 2010 is not going to bring much improvement in Famur's financial performance. EBIT should be higher than in Q1 by an estimated 24.2%, but it will still be 44.9% lower than in Q2 2009. While the situation in the market for mining machinery and equipment seems to be improving, other markets remain sluggish. A rapid turnaround can hardly be expected of the ship-building industry, a major buyer of Famur's castings, and the government aid received last year by automakers did not translate into more business for their suppliers. The slight improvement in Famur's Q1 2010 revenues from casting sales could be a sign of a pickup in demand, but future revenue growth is expected to be sluggish at 2.7% on average per quarter. In lifting and loading equipment, after the Q1 revenue slump, the company probably needs at least two or three quarters to rebuild the order backlog. These efforts will no doubt be helped by the integration of Pioma Industry and Zamet. The two companies have similar production characteristics and cater to similar markets, and they can combine their technology, skills, and customer bases, to increase sales. Famur has yet to disclose whether Zamet has continued the positive sales trends reported in Q409.

Financial forecasts for the next three quarters

(PLN m)	1Q10	2Q10F	3Q10F	4Q10F	2010F	2011F
Revenues	162.8	165.3	136.8	160.7	625.6	605.4
y/y change	-42.5%	0.0%	0.0%	0.0%	-10.0%	-3.2%
COGS	129.8	132.1	101.7	117.9	481.5	421.7
Gross profit	33.0	33.2	35.1	42.8	144.2	183.7
Gross margin	20.3%	20.1%	25.7%	26.6%	23.0%	30.3%
Other operating income	5.7	2.0	3.0	5.7	16.4	21.3
Selling expenses	1.4	1.6	1.9	3.1	8.0	7.8
G&A expenses	19.4	19.5	19.5	20.6	79.1	76.5
Other operating expenses	6.7	0.1	0.1	0.1	7.0	0.0
EBIT	11.3	14.0	16.6	24.6	66.5	120.7
y/y change	-82.7%	-44.9%	0.9%	-	-34.1%	81.6%
Financial income	13.7	0.1	0.1	-0.6	13.3	8.5
Financial expenses	0.2	2.5	2.5	2.9	8.1	8.1
Pre-tax income	24.8	11.6	14.2	21.1	71.7	121.1
Tax	3.7	2.8	3.4	3.7	13.6	23.0
Net income	21.0	8.8	10.8	17.4	58.1	98.1
Net income attributable to minority interests	0.1	0.2	0.3	0.3	0.9	0.9
Net income attributable to parent company shareholders	20.9	8.6	10.5	17.1	57.2	97.2
y/y change	29.4%	-57.7%	-56.9%	-	-1.4%	70.0%
Zamet – best-case scenario (consolidation)	**1Q10**	**2Q10F**	**3Q10F**	**4Q10F**	**2010F**	**2011F**
Revenues		10.0	25.0	25.0	60.0	110.0
EBIT		2.5	6.3	6.3	15.0	27.5
Net income		1.5	3.8	3.8	9.0	16.5
Famur + Zamet (best-case scenario)	**1Q10**	**2Q10F**	**3Q10F**	**4Q10F**	**2010F**	**2011F**
Revenues	162.8	175.3	161.8	185.7	685.6	715.4
change	-42.5%	19.0%	56.5%	15.4%	-1.4%	4.3%
EBIT	11.3	16.5	22.9	30.8	81.5	148.2
change	-82.7%	-35.1%	38.8%	-601.7%	-19.2%	81.9%
Net income	20.9	10.1	14.3	20.9	66.2	113.7
change	29.4%	-50.3%	-41.6%	-900.8%	14.1%	71.8%

Source: BRE Bank Securities

We expect Famur to become a more attractive investment bet in the third quarter, when its earnings will start to improve. Moreover, if Zamet does as well in Q1 and Q2 2010 as it did in Q4 2009, it could add PLN 15m to the consolidated EBIT, and PLN 9m to the bottom-line profit, for 2010. Calculated based on estimated 2010 earnings, the company was acquired at an EV/EBITDA ratio of 4.65 (PLN 85m).

Situation In the Domestic Market

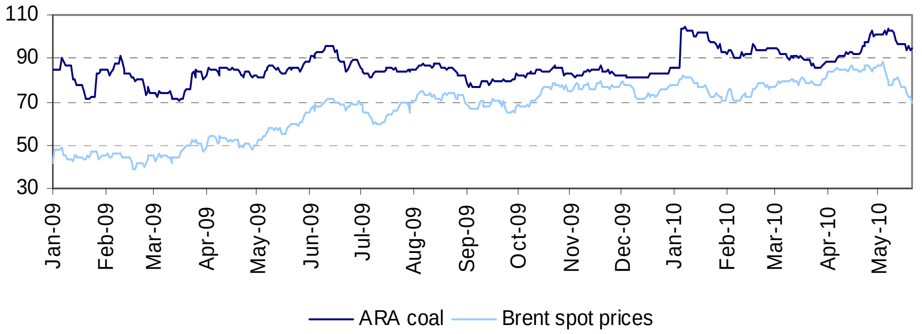
It seems that 2010 will not be as bleak a year for the Polish coal industry as we thought. First of all, coal imports from Russia are expected to total between 6 and 8 million tons – a revision from earlier projections of 10.5MT – representing volumes equivalent to Poland's exports. The reason is that coal purchases from Russia and ARA ports are no longer cheaper at PLN 300 a ton including freight, compared to a first-quarter per-ton average of PLN 278.5 for Polish coal. Domestic miners kept about 5.6MT of unsold coal stockpiles at 31 March, but the recent price trends offer hope that these stocks can be liquidated in the future. Some experts say that the lower imports from Russia are a result of the country's increased exports to India and China, where demand is great.

In the first quarter of 2010, steam-coal sales were 2.5% higher than in the same period a year ago, while the mining output was 1.9% lower. Stronger sales support the liquidity, and hence also the investment capacity, of Polish coal producers. As a result, manufacturers of mining machinery can look forward to new orders. Another positive development is the increasing willingness of financial firms to enter into leasing deals (to date, producers had to shoulder all the risks entailed in such transactions). Moreover, the CAPEX budgets of Polish coal mines have been reinforced by a PLN 400m government-aid program, expected to enter into force in June. Mines can apply to obtain 30% funding for projects started in 2010, and the funds have to be spent this year. Examples of eligible projects include heading development, plant purchases, air-conditioning installations, shaft modernization and deepening, and coal-processing plant upgrades.
The main rival of Famur and Kopex, Glinik, is facing bankruptcy. Its liquidity has been undermined by defaulting customers, and the general cash shortage is causing problems with creditors, including utility providers who have been cutting the company off, causing production line downtime. If Glinik does not find an investor soon, it is very likely to go out of business, leaving more market to Famur and Kopex, both of which have been struggling to fill up their H2 2010 order backlogs. We do not think that an investment in Glinik would be a good idea for either company.

Situation In International Markets

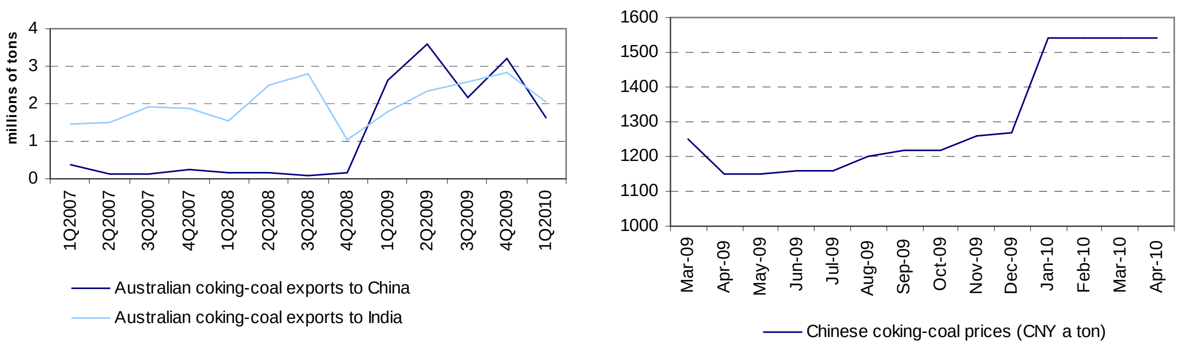
Coal prices usually follow oil prices, suggesting a possible downslide in the near term, however, in the long term, they are expected to ride high on the back of huge demand from China and India. Moreover, a rapid rally has been observed recently in the prices of coking coal worldwide, including in China where its prices were almost 25% higher in Q1 2010 than in thee same period a year ago. These trends should encourage world miners with high operating leverages to increase production, including from new sites, necessitating replacements of obsolete machinery with new, more effective units.

ARA coal prices vs. Brent crude spot prices (USD per ton/barrel)



Source: BRE Bank Securities, Bloomberg

Australian coking-coal exports to China and India, prices in China



Source: BRE Bank Securities, Bloomberg

World producers were forced to cut capital investment after the dramatic coal-price drop in 2008, and in the wake of global economic uncertainty. The cutbacks were most severe in the USA, where the financial crisis originated, and in Mexico, Thailand, and Indonesia. Countries like China, India, and Australia, were less affected. We analyzed the capital expenses of selected miners from leading coal-producing countries, and reached the conclusion that their budgets will increase by a combined 9.2% in 2010 and a further 8.8% in 2011. In subsequent years, the expenses could be even higher as the coal industry achieves stability, and as global demand for energy continues to rise.

CAPEX forecasts for leading global coal producers (USD m)

Country	Company	2009	2010F	2011F
Australia	BHP BILLITON PLC*	2 426.8	2 390.0	2 806.6
Australia	COAL & ALLIED INDUSTRIES LTD	134.3	180.9	559.1
Australia	MACARTHUR COAL LTD	62.2	62.5	101.8
Australia	WHITEHAVEN COAL LTD	115.7	221.2	173.6
China	SHANXI LU`AN ENVIRONMENTAL-A	291.1	368.2	393.8
China	CHINA COAL ENERGY CO-H	1 557.6	1 563.6	1 374.2
China	SHANXI XISHAN COAL & ELEC-A	369.0	391.5	363.1
Indonesia	BUMI RESOURCES TBK PT	376.4	400.9	381.9
Indonesia	BAYAN RESOURCES GROUP	46.7	62.9	73.8
Mexico	GRUPO MEXICO SAB DE CV-SER B*	214.8	380.8	424.9
USA	ALPHA NATURAL RESOURCES INC	263.1	369.7	351.7
USA	WALTER ENERGY INC	87.6	115.2	125.3
USA	ARCH COAL INC	295.9	299.3	314.6
USA	MASSEY ENERGY CO	287.4	322.2	314.4
Total		**6 528.5**	**7 128.9**	**7 758.8**
change			9.2%	8.8%

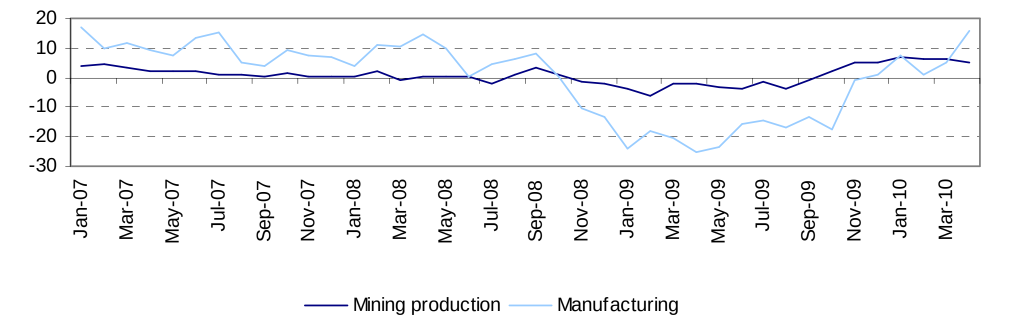
**coal-mine CAPEX*
Source: BRE Bank Securities, Bloomberg

The resulting increase in orders will be an opportunity to drum up business for Polish manufacturers of mining machinery. Between Famur and Kopex, the latter is better prepared to successfully compete for international contracts, but the former can offer better deals to the more price-oriented customer.

Recovery In Russian Market

The Russian mining industry has been showing signs of a recovery from a long recession since late 2009. Coal sales have been buoyed by big purchases by China and India, as well as by improved local demand. This gives rise to expectations of increased capital investment by Russian miners, whose plant replacement needs are much greater than those of Polish mines. The problem from the standpoint of Polish machinery suppliers is that the prospective opportunities could be snatched by competition from China, who are greatly supported by their government, and can therefore offer buyers incentives such as Chinese-government-backed investment loans with maturities extending over ten years, and deferred payment plans – options that are not available to our producers. Another issue is local protectionism, whereby Russian suppliers are favored over foreign companies even though their machines are lower quality. One of such protectionist practices are tax breaks for mines that buy their equipment locally. Having said that, we believe that these obstacles will be mitigated by rising demand.

Manufacturing and mining production trends in Russia



Source: BRE Bank Securities, Bloomberg

Valuation

Based on DCF analysis and relative valuation, we set the nine-month price target on Famur at PLN 2.03 per share.

	Weight	Price
Relative Valuation (PLN)	40%	1.74
DCF Analysis (PLN)	60%	1.98
	price	1.88
	9M target price	**2.03**

We compared Famur with the world's leading producers of underground mining machinery. Since the firms making up the peer group trade at premiums awarded for their well-established and widely recognized brands, we felt that the Polish producer should receive a 20% discount.

Relative Valuation

	2008 P/E	2009 P/E	2010F P/E	2011F P/E	2012F P/E	2008 EV/ EBITDA	2009 EV/ EBITDA	2010F EV/ EBITDA	2011F EV/ EBITDA	2012F EV/ EBITDA
ATLAS COPCO AB-A SHS	14.0	20.3	13.8	11.6	10.0	8.7	12.1	10.4	8.9	8.1
INDUSTREA LTD	6.6	6.6	6.7	5.3	4.6	6.5	5.3	4.6	4.0	3.7
JOY GLOBAL INC	15.0	11.9	16.2	12.9	10.7	8.4	7.0	9.1	7.4	6.3
KOPEX	15.0	16.1	17.4	12.4	10.2	7.1	8.4	7.7	6.4	5.6
SANDVIK AB	12.9	-	19.6	13.0	10.2	8.1	35.3	10.1	7.8	6.8
Maximum	15.0	20.3	19.6	13.0	10.7	8.7	35.3	10.4	8.9	8.1
Minimum	6.6	6.6	6.7	5.3	4.6	6.5	5.3	4.6	4.0	3.7
Median	**14.0**	**14.0**	**16.2**	**12.4**	**10.2**	**8.1**	**8.4**	**9.1**	**7.4**	**6.3**
Famur	16.3	16.6	21.9	12.0	9.2	5.3	7.9	11.3	6.3	5.1
Premium (discount)		15.5%	25.9%	-2.8%	-11.1%		-7.7%	19.2%	-15.8%	-20.8%
Implied value										
Median	14.0	14.0	16.2	12.4	10.2	8.1	8.4	9.1	7.4	6.3
Discount			20%	20%	20%			20%	20%	20%
Multiple weight				50%					50%	
Year weight			10%	50%	40%			10%	50%	40%
Equity value per share	1.74									

Source: BRE Bank Securities

The peer group is composed of Atlas Copco AB, Industrea LTD, Joy Global Inc., Kopex S.A. and Sandvik AB. Atlas Copco is a supplier of mining structures and tools. Joy Global offers services and solutions to both underground and surface mines. Kopex is Famur's main rival on the domestic market; it specializes in mining services, the manufacture of machinery and equipment for underground and strip mines, industrial machinery, electric and electronic equipment and metal casts. Sandvik caters to metal manufacturers and the mining industry.

A comparison of forecasted P/E and EV/EBITDA multiples shows that Famur is trading at lower 2010 ratios, and higher 2011 and 2012 ratios, relative to peers.

DCF Analysis

DCF model assumptions

- Risk-free rate = 5.79% (10Y T-bond yield).
- Expected FCF rate growth after FY2018 = 2%.
- Beta = 1.0.
- We assume that Famur will start paying dividends in 2012.
- The valuation is based on net debt as at year-end 2009.
- Future revenues are discounted to their present value as of early June 2010.
- The valuation does not take into account new stock issues, or the acquisition of Zamet-Budowa Maszyn.
- We did factor in the expenses incurred on manufacturing plant extensions in the Katowice Special Economic Zone. We assume that all work will be completed by the end of 2010, and that the total cost will amount to PLN 100m. Famur is up for a PLN 37m EU subsidy which we expect to be credited to other operating income (PLN 16.4m in 2010 and PLN 21.3m in 2011).

DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	+
Revenues	**625.6**	**605.4**	**650.5**	**677.9**	**698.9**	**716.5**	**730.5**	**744.9**	**759.5**	**774.5**	**789.7**
Change	-10.0%	-3.2%	7.5%	4.2%	3.1%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
EBITDA	**99.7**	**157.1**	**166.0**	**172.6**	**177.7**	**181.8**	**185.1**	**188.4**	**191.7**	**195.1**	**192.0**
EBITDA margin	15.9%	26.0%	25.5%	25.5%	25.4%	25.4%	25.3%	25.3%	25.2%	25.2%	24.3%
Amortization and depreciation	33.2	36.4	37.6	38.5	39.0	39.5	39.9	40.3	40.7	41.1	41.5
EBIT	**66.5**	**120.7**	**128.5**	**134.1**	**138.6**	**142.3**	**145.2**	**148.0**	**151.0**	**154.0**	**150.5**
EBIT margin	10.6%	19.9%	19.7%	19.8%	19.8%	19.9%	19.9%	19.9%	19.9%	19.9%	19.1%
Tax on EBIT	12.0	23.0	24.8	25.9	26.9	27.6	28.2	28.9	29.5	30.1	29.6
NOPLAT	**54.5**	**97.7**	**103.6**	**108.2**	**111.8**	**114.7**	**116.9**	**119.2**	**121.5**	**123.8**	**120.9**
CAPEX	-76.7	-52.4	-49.8	-45.9	-45.5	-45.4	-45.3	-45.8	-46.3	-46.7	-41.5
Working capital	26.9	7.9	-17.5	-10.6	-8.1	-6.8	-5.5	-5.6	-5.7	-5.8	-5.9
Other	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**46.5**	**89.6**	**73.9**	**90.1**	**97.2**	**102.0**	**106.0**	**108.1**	**110.3**	**112.5**	**115.0**
WACC	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Discount factor	0.94	0.85	0.77	0.69	0.63	0.56	0.51	0.46	0.41	0.37	0.34
PV FCF	43.8	76.2	56.7	62.4	60.8	57.5	54.0	49.7	45.8	42.1	38.9

WACC	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**
Cost of debt	6.79%	6.79%	6.79%	6.79%	6.79%	6.79%	6.79%	6.79%	6.79%	6.79%	6.79%
Risk-free rate	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%
Risk premium	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Equity	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

FCF growth after the forecast horizon	2.0%
Terminal value	1 308.3
Present value of the terminal value (PV TV)	489.9
Present value of FCF in the forecast horizon	549.0
Enterprise value (EV)	1 038.9
Net debt	65.2
Other non-operating assets	0.0
Minority interests	20.2
Equity value	953.4
Number of shares (millions)	481.5
Equity value per share (PLN)	**1.98**
Cost of equity (9M)	8.0%
Target Price	**2.14**
EV/EBITDA for the target price	10.8
P/E ('10) for the target price	18.0
TV to EV	47.2%

**After adjustment for the EU subsidy, P/E is 23.4 and EV/EBITDA is 13.7.*

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0ppt	1.74	1.81	1.89	2.00	2.29
WACC +0.5ppt	1.83	1.91	2.01	2.13	2.48
WACC	1.93	2.03	**2.14**	2.28	2.71
WACC -0.5ppt	2.05	2.15	2.28	2.45	2.97
WACC 1.0ppt	2.17	2.29	2.45	2.65	3.29

Income Statement

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Revenues	**909.2**	**1 089.1**	**695.1**	**625.6**	**605.4**	**650.5**	**677.9**	**698.9**	**716.5**	**730.5**
Change	50.5%	19.8%	-36.2%	-10.0%	-3.2%	7.5%	4.2%	3.1%	2.5%	2.0%
Mining Machinery	521.9	506.6	339.4	246.6	283.5	311.9	327.5	340.6	350.8	357.8
Other Mining Equipment	66.3	118.1	72.9	63.3	69.6	74.5	78.2	81.4	83.8	85.9
Loading and Lifting Equipment	110.6	77.4	56.9	39.1	43.0	45.6	47.0	47.9	48.9	49.8
Metal Casting	171.3	276.3	144.5	137.3	144.2	152.8	158.9	162.1	165.4	168.7
Other	39.1	110.8	81.3	139.4	65.0	65.7	66.3	67.0	67.6	68.3
COGS	**666.6**	**774.2**	**480.1**	**481.5**	**421.7**	**431.4**	**449.4**	**463.0**	**474.4**	**483.7**
G&A expenses	89.6	95.6	79.9	79.1	76.5	82.2	85.7	88.4	90.6	92.3
Selling expenses	18.2	17.3	8.9	8.0	7.8	8.3	8.7	9.0	9.2	9.4
Other net operating income/loss	3.8	-37.8	-25.4	9.4	21.3	0.0	0.0	0.0	0.0	0.0
EBIT	**138.5**	**164.2**	**100.8**	**66.5**	**120.7**	**128.5**	**134.1**	**138.6**	**142.3**	**145.2**
Change	1.8%	18.5%	-38.6%	-34.1%	81.6%	6.4%	4.4%	3.4%	2.7%	2.0%
EBIT margin	15.2%	15.1%	14.5%	10.6%	19.9%	19.7%	19.8%	19.8%	19.9%	19.9%
Profit on financing activity	5.5	-90.2	-23.3	5.3	0.4	2.2	2.4	2.8	3.1	3.5
Extraordinary gains/losses	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**144.0**	**74.0**	**77.9**	**71.7**	**121.1**	**130.7**	**136.6**	**141.5**	**145.4**	**148.6**
Tax	27.2	14.8	19.0	13.6	23.0	24.8	25.9	26.9	27.6	28.2
Minority interests	1.5	0.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Net income	**115.4**	**59.1**	**58.0**	**57.2**	**97.2**	**105.0**	**109.7**	**113.7**	**116.9**	**119.5**
Change	7.9%	-48.8%	-1.8%	-1.4%	70.0%	7.9%	4.5%	3.6%	2.8%	2.2%
Margin	12.7%	5.4%	8.3%	9.1%	16.1%	16.1%	16.2%	16.3%	16.3%	16.4%
Amortization and depreciation	27.1	34.8	32.8	33.2	36.4	37.6	38.5	39.0	39.5	39.9
EBITDA	**165.6**	**199.0**	**133.6**	**99.7**	**157.1**	**166.0**	**172.6**	**177.7**	**181.8**	**185.1**
Change	7.3%	20.2%	-32.9%	-25.4%	57.6%	5.7%	3.9%	2.9%	2.3%	1.8%
EBITDA margin	18.2%	18.3%	19.2%	15.9%	26.0%	25.5%	25.5%	25.4%	25.4%	25.3%
Shares at year-end (millions)	481.5	481.5	481.5	481.5	481.5	481.5	481.5	481.5	481.5	481.5
EPS	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
CEPS	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
ROAE	19.7%	9.2%	8.3%	7.5%	11.3%	11.6%	11.8%	11.9%	12.0%	12.0%
ROAA	9.9%	4.5%	5.5%	5.2%	8.1%	8.4%	8.6%	8.7%	8.8%	8.8%

Balance Sheet

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
ASSETS	**1 164.4**	**1 309.3**	**1 053.2**	**1 100.7**	**1 195.7**	**1 244.2**	**1 280.3**	**1 304.8**	**1 328.6**	**1 351.7**
Fixed assets	**537.0**	**553.3**	**509.4**	**552.9**	**568.9**	**581.1**	**588.5**	**595.0**	**600.9**	**606.3**
Intangible assets	100.8	101.5	105.3	94.8	90.8	96.6	99.8	101.8	103.4	104.4
Property, plant and equipment	393.9	384.1	350.0	404.0	424.0	430.4	434.7	439.0	443.4	447.9
Goodwill	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term receivables	5.5	8.4	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
Long-term investments	12.4	18.7	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
Long-term prepayments	24.4	40.7	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2
Current assets	**627.4**	**756.0**	**543.7**	**547.7**	**626.8**	**663.1**	**691.8**	**709.8**	**727.7**	**745.4**
Inventories	190.1	208.2	134.0	120.6	116.7	125.4	130.7	134.7	138.1	140.8
Short-term receivables	404.6	417.2	238.0	214.2	207.3	222.7	232.1	239.3	245.3	250.1
Trade receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term investment	1.2	1.8	105.5	42.3	42.3	42.3	42.3	42.3	42.3	42.3
Cash	28.6	124.0	62.9	167.6	257.6	269.6	283.4	290.1	298.6	308.7
Short-term prepayments	2.8	4.8	3.4	3.0	2.9	3.2	3.3	3.4	3.5	3.5

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
LIABILITIES	**1 164.4**	**1 309.3**	**1 053.2**	**1 100.7**	**1 195.7**	**1 244.2**	**1 280.3**	**1 304.8**	**1 328.6**	**1 351.7**
Equity	**586.9**	**645.4**	**703.3**	**761.4**	**859.5**	**901.1**	**933.0**	**954.3**	**975.5**	**996.5**
Share capital	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Capital reserve	336.0	461.6	511.9	511.9	511.9	511.9	511.9	511.9	511.9	511.9
Retained profits	246.3	179.2	186.5	243.8	341.0	381.8	412.8	433.3	453.5	473.6
Minority interests	20.0	20.0	20.2	20.2	20.2	20.2	20.2	20.2	20.2	20.2
Long-term liabilities	**143.6**	**95.3**	**92.9**	**92.9**	**92.9**	**92.9**	**92.9**	**92.9**	**92.9**	**92.9**
Debt	138.4	92.5	92.9	92.9	92.9	92.9	92.9	92.9	92.9	92.9
Short-term liabilities	**287.6**	**408.8**	**141.1**	**130.5**	**127.4**	**134.3**	**138.5**	**141.7**	**144.4**	**146.5**
Trade creditors	151.6	305.5	105.9	95.3	92.2	99.1	103.3	106.5	109.2	111.3
Debt	136.0	103.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2
Provisions for payables	125.9	138.1	95.4	95.4	95.4	95.4	95.4	95.4	95.4	95.4
Other	0.3	1.7	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Debt	274.3	195.7	128.1	128.1	128.1	128.1	128.1	128.1	128.1	128.1
Net debt	245.7	71.7	65.2	-39.5	-129.5	-141.4	-155.3	-162.0	-170.4	-180.5
(Net debt / Equity)	41.9%	11.1%	9.3%	-5.2%	-15.1%	-15.7%	-16.6%	-17.0%	-17.5%	-18.1%
(Net debt / EBITDA)	1.5	0.4	0.5	-0.4	-0.8	-0.9	-0.9	-0.9	-0.9	-1.0
BVPS	1.2	1.3	1.5	1.6	1.8	1.9	1.9	2.0	2.0	2.1

Cash Flows

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Cash flows from operating activities	**-18.1**	**222.3**	**171.4**	**121.6**	**142.0**	**123.7**	**136.0**	**142.6**	**147.4**	**151.4**
Net income	115.4	59.1	58.0	57.2	97.2	105.0	109.7	113.7	116.9	119.5
Amortization and depreciation	27.1	34.8	32.8	33.2	36.4	37.6	38.5	39.0	39.5	39.9
Working capital	-145.9	54.8	113.3	26.9	7.9	-17.5	-10.6	-8.1	-6.8	-5.5
Other	-14.6	73.7	-32.7	4.2	0.4	-1.3	-1.6	-2.0	-2.2	-2.6
Cash flows from investing activities	**-153.97**	**-32.56**	**-141.70**	**-13.52**	**-52.39**	**-49.80**	**-45.89**	**-45.46**	**-45.41**	**-45.35**
CAPEX	-36.20	-28.81	-2.55	-76.72	-52.39	-49.80	-45.89	-45.46	-45.41	-45.35
Equity investments	-117.77	-3.75	-105.65	63.20	0.00	0.00	0.00	0.00	0.00	0.00
Cash flows from financing activities	**118.0**	**-94.4**	**-90.7**	**-3.3**	**0.4**	**-62.0**	**-76.3**	**-90.5**	**-93.6**	**-95.9**
Debt	102.2	-101.6	-78.8	-8.1	-8.1	-8.1	-8.1	-8.1	-8.1	-8.1
Dividends/share buy-back	0.0	0.0	0.0	0.0	0.0	-64.2	-78.7	-93.3	-96.7	-99.4
Other	15.9	7.2	-12.0	4.7	8.5	10.3	10.5	10.9	11.2	11.5
Change in cash	**-54.0**	**95.4**	**-61.1**	**104.7**	**90.0**	**12.0**	**13.8**	**6.7**	**8.4**	**10.1**
Cash at end of period	28.6	124.0	62.9	167.6	257.6	269.6	283.4	290.1	298.6	308.7
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.13	0.16	0.19	0.20	0.21
FCF	-42.7	195.1	195.6	46.5	89.6	73.9	90.1	97.2	102.0	106.0
(CAPEX / Sales)	-4.0%	-2.6%	-0.4%	-12.3%	-8.7%	-7.7%	-6.8%	-6.5%	-6.3%	-6.2%

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
P/E	8.3	16.3	16.6	16.8	9.9	9.2	8.8	8.5	8.2	8.1
P/CE	6.8	10.3	10.6	10.6	7.2	6.8	6.5	6.3	6.2	6.0
P/BV	1.6	1.5	1.4	1.3	1.1	1.1	1.0	1.0	1.0	1.0
P/S	1.1	0.9	1.4	1.5	1.6	1.5	1.4	1.4	1.3	1.3
FCF/EV	-3.5%	18.9%	19.0%	5.0%	10.7%	9.0%	11.2%	12.1%	12.9%	13.6%
EV/EBITDA	7.4	5.3	7.9	9.5	5.4	5.1	4.8	4.6	4.5	4.3
EV/EBIT	8.9	6.4	10.4	14.2	7.1	6.6	6.2	5.9	5.7	5.5
EV/S	1.4	1.0	1.5	1.5	1.4	1.3	1.2	1.2	1.1	1.1
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	6.7%	8.2%	9.7%	10.0%	10.3%
Price (PLN)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Shares at year-end (millions)	481.5	481.5	481.5	481.5	481.5	481.5	481.5	481.5	481.5	481.5
MC (PLN m)	963.0	963.0	963.0	963.0	963.0	963.0	963.0	963.0	963.0	963.0
Equity attributable to minority shareholders (PLN m)	20.0	20.0	20.2	20.2	20.2	20.2	20.2	20.2	20.2	20.2
EV (PLN m)	1 228.7	1 054.7	1 048.5	943.8	853.8	841.8	828.0	821.2	812.8	802.7

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List of abbreviations and ratios contained in the report:
EV *– net debt + market value*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
P/CE *– price to earnings with amortisation*
MC/S *– market capitalisation to sales*
EBIT/EV *– operating profit to economic value*
P/E *– (Price/Earnings) – price divided by annual net profit per share*
ROE *– (Return on Equity) – annual net profit divided by average equity*
P/BV *– (Price/Book Value) – price divided by book value per share*
Net debt *– credits + debt papers + interest bearing loans – cash and cash equivalents*
EBITDA margin *– EBITDA/Sales*

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rating	Sell	Sell
rating day	2010-02-04	2010-03-08
price on rating day	2.59	2.60
WIG on rating day	40118.73	40354.28